Société générale de financement du Québec

Annual Report
1976

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Subsidiaries and affiliated companies in the SGF group

Marine Industries Limited
and its subsidiary

Forano Limited

Volcano Limited

The Donohue Company Limited
and its subsidiaries

Cegelec Entreprises Inc.
and its subsidiaries

Cegelec Industrie Inc.

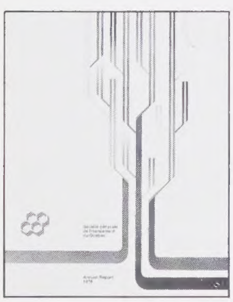
La Salle Knitting Limited

Sofobec Ltd.

Société de Montage
Automobile — SOMA Inc.

Artopex Ltd.
and its subsidiaries

Sogefor Ltd.



On the cover is a symbolic tree whose tri-coloured roots represent the three fundamental ressources of any business: the physical, the financial and the human. These must act together to stimulate growth and productivity for the companies in the SGF Group.

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April 21, 1977

Mr. Rodrigue Tremblay,
Ministre de l'Industrie et du Commerce,
Gouvernement du Québec

Dear Sir,

In accordance with provisions of the Charter of Société générale de financement du Québec, I have the honour, on behalf of the Board of Directors, to submit the annual report for the year ended on December 31, 1976.

As required by Article 18 of the Charter, the report summarizes the 1976 activities of SGF and includes the annual consolidated financial statements accompanied by the report of the auditors.

Yours very truly,

R. A. Rassé

Chairman of the Board

Highlights of consolidated statements ($'000)

	1976	1975
Sales	$404,772	$382,543
Profits before minority interests	469	21,175
Net profit	489	13,319
Working capital	50,035	60,027
Capital expenditure	49,472	10,823
Shareholders' equity	90,398	76,193

Board of Directors

Raymond David
President and Managing Director
of the Company

John H. Dinsmore
Deputy Minister
Ministère de l'Industrie
et du Commerce du Québec

Yves Graton
President
UAP Inc.

Michel Latraverse
President
York Lambton Corporation Limited

Maurice A. Massé
Chairman of the Board of the Company

*Philippe Pariseault
President and Managing Director
Québec-Lait Inc.

Jean-Paul Tardif
Chairman of the Board
Fiducie Prêt et Revenu

*Honorary director

Officers

Maurice A. Massé
Chairman of the Board

Raymond David
President and Managing Director

Jacques Villeneuve
Executive Vice-President

Michel Plessis-Bélair
Director of Finance and Treasurer

Michel Pelland
Director of Administration

Marcel Manseau
Technical Director

Louis-Gilles Gagnon
Secretary and Legal Counsel

The Management Committee. *From left to right:* Marcel Manseau, Jacques Villeneuve, Maurice A. Massé, Raymond David, Louis Saint-Arnaud, Michel Plessis-Bélair and Michel Pelland. Mr. Louis-Gilles Gagnon does not appear in this photo.

Annual Report 1976

After an extremely successful 1975 which produced the highest level of profits in SGF's history, the 1976 overall financial results are very disappointing. However, this year has not been entirely without benefits. In particular, SGF is happy to announce that one of its most important goals was reached in 1976:

"To take an active part in major new industrial projects involving, for the most part, utilisation and processing of natural resources in Quebec..."

Through its subsidiary, The Donohue Company Limited, SGF took part in the April 1976 launching of the St-Félicien forest project, a project which could never have gotten under way without government assistance. The association with the private sector which provides technical know-how and marketing expertise was fundamental to assure the success of the project. Inflation having contributed to the doubling of the cost of such a venture during the past 5 years, the founding partners could not assume on their own all risks inherent to the completion of the project. Pages 30 & 31 contain an outline of the project and the role played by SGF.

Operating results and financial position
Of the thirteen companies in which SGF held shares on December 31, 1976, nine realized a profit during the year and four experienced such considerable losses that all the companies combined show an almost insignificant profit. In 1975, only one of these companies registered a loss. In 1976, the companies whose statements are consolidated realized total sales of $404,772,000, as compared to $382,543,000 in 1975. This represents a modest increase of 6%.

Overall, and before minority interests in each of these companies are taken into account, net profit for 1976 was $266,000, compared to profits of $20,985,000 for the year ended December 31, 1975. When S G F 's share in the earnings of those companies whose accounts are accounted for at equity value is added, net profit for 1976 amounts to $469,000 as compared to $21,175,000 in 1975.

For 1976, SGF's share in the net profit is $489,000, while it amounted to $13,319,000 the previous year. The final result for 1976 is greater than the consolidated results of the companies because SGF holds a larger percentage of shares in those companies which had a successful year.

The table on pages 10 and 11 summarizes the operating results of each company in our portfolio, along with the cost of investment and the percentage held by SGF. It is quite clear from this table that the 1976 returns on investment are almost non-existent compared to the percentages realized in 1975.

In 1976, there were no fiscal savings realized because of ownership by SGF. In 1975, Forano Limited, Volcano Limited and LaSalle Knitting Limited enjoyed fiscal exemptions amounting to almost $1,600,000.

The major explanation of this radical change between 1976 and 1975, to the extent of $17 million, is reflected in the results of the following companies:

Forano Limited
A major reduction in sales was recorded in the sawmill and forest industries. This resulted in a significant devaluation of inventories at year-end. To this must be added an extraordinary loss estimated at $1,000,000; which resulted from the repossession of equipment sold to a customer in 1974 and who defaulted on his contractual agreements at the beginning of 1976.

Volcano Limited
The drop in sales of manufactured products and, especially, the lack of orders for new technology products were the two main causes of Volcano's deficit. These causes were in turn the result of the very low level of industrial investments which characterized 1976.

Cegelec Enterprises Inc.
The international subsidiary was forced to make provisions for known and contingent losses of $8.9 million on a foreign contract signed in 1974. This fixed price contract contains an indexation ceiling clause and will terminate this year. The repeated work slowdowns, as well as the strike of several weeks in the Quebec construction industry, caused major increases in operating costs along with considerable delays in the completion of projects.

During 1976, the companies in the group invested $12,921,000 to improve their production facilities. This amount does not take into account investments in the St-Félicien project.

Dividends paid in 1976 totalled $3,758,000. Of this amount, $2,787,000 was paid to minority shareholders. These dividends were paid by only three companies in the Group, and their total profits reached $11,055,000 — the amount paid represents 34% of their profits.

The shareholders' equity, as noted in the December 31, 1976 consolidated balance sheet is $90,398,000 compared to $76,193,000 at the end of the previous year. In accordance with the provisions of Bill 35, which was approved on June 18, 1976, the Minister of Finance subscribed 2,700,000 new deferred dividend shares, convertible share for share into common shares after January 1, 1982. At year-end, half of the proceeds of this subscription had been received. At the same time, the Minister of Finance agreed to loan $15 million at an interest rate of 10¼% to be repaid in five equal and consecutive instalments, from 1988 through 1992. Proceeds of this loan will be received in part during 1977 and in part during 1978. As these funds are to be disbursed by SGF more rapidly than they are to be disbursed by the government, interest on the temporary borrowings contracted by SGF is covered by the premium paid on the shares of a par value of $10 each, which have been subscribed at a price of $10.8235 each.

Finally, even if we do not take into account the $13.5 million in deferred dividend shares in the shareholders' equity at year-end (since these funds have been invested in a project which will not get under way until 1979), the return on the 1976 operations is almost nil compared to a return of 21.2% in 1975 and 17.3% in 1974.

Sico Inc.
SGF announced in last year's Annual Report that it had agreed to acquire the shares of Sico Inc., on terms not then specified and had also agreed to invest an additional sum to finance further expansion. In fact, considerable effort was made by a study committee made up of SGF executives and shareholding managerial staff from Sico. The task of this committee was to work out a structure allowing the quasi-sole ownership of the firm to be transferred to a type of ownership which would combine managerial majority shareholding with SGF's role as industrial development investor through the provision of risk capital necessary for further expansion of the company. All parties involved, satisfied with the initiative and imagination displayed in coming to an understanding, thought that their new concept would correspond to the needs of the company and its shareholders. At the moment these lines are being written, a Quebec financial institution has exercised its right of first refusal to acquire, instead of SGF and in accordance with the same terms and conditions indicated in SGF's official offer of January 5, 1977, the Sico shares which were the object of negotiations carried out during 1976.

Changes in the portfolio
The 1976 portfolio changes are as follows in order of importance:

The Donohue Company Limited
SGF now holds 55% of the voting shares of this company following the exercise, last August, of rights to subscribe to new preferred voting shares, with deferred dividend and convertible into common shares. In addition to exercising all its subscription rights, SGF, La Cellulose du Pin S.A. and Papeterie de la Seine S.A. agreed to subscribe, according to a predetermined proportion, all new shares not taken by the other shareholders. As a result, SGF bought 1,696,233 new shares and its French partners purchased 1,000,000 shares.

This new share issue brought in $27 million which Donohue used to finance a part of its subscription to 60% of the shares of Donohue St-Félicien Inc. — a new subsidiary responsible for the realisation of St-Félicien project. The new preferred shares do not carry any dividend to avoid diluting earnings available to the holders of common shares during the construction and start-up of the St-Félicien project. As a result, SGF even though it holds 55% of the voting shares, has not increased its share in the profits of Donohue's operations. This will continue until January 1982, when the new preferred shares will become convertible into common shares.

Cegelec Enterprises Inc. and its subsidiary, BG Checo Engineering Limited
At the beginning of 1976, SGF and its partners agreed to modify the capital structure of this group of companies to enable it to obtain financing sources required by its expanding sales volume. New shares in the amount of $1,000,000 were subscribed equally by the two groups of shareholders and loans of $150,000 were converted into preferred shares. In addition, SGF agreed to convert $1,200,000 principal amount of debentures of BG Checo Engineering Limited into preferred shares, redeemable and 8½% cumulative. These preferred shares will be redeemed yearly by using a predetermined percentage of funds generated by the company's operations. Because of the poor 1976 results previously indicated, shareholders recently agreed to advance $3 million each to restore the financial position of the group so that it can execute approximately $60 million of orders on hand at the beginning of the year. This will enable the companies to maintain their competitive position in a market which promises to be very active over the next few years.

Société de Montage Automobile — SOMA Inc.
In May 1976 SGF authorized the sale of the SOMA building at Saint-Bruno for the price of $1.8 million. An amount of $300,000 was paid in cash and the balance, which is guaranteed by a first mortgage, is repayable over a 10-year period at an interest rate of 10¼%, which was the prime banking rate at the time of the transaction. The agreed price was equivalent to independent evaluations obtained by real estate firms specializing in the sale of industrial properties. These firms had the property, which was built in 1965, listed since 1974.

SOMA remains owner of vacant land situated opposite the property sold.

A profit of $136,000 was realized on the transaction and this is bearing in mind reserves which had been provided for when operations terminated at the end of 1973.

Centre Éducatif et Culturel Inc.
SGF wanted to sell its 50% interest it held in this excellent publishing house which owns 100% of Librairie Garneau Limitée, a retail bookstore. When the Quebec government purchased all outside outstanding shares of SGF in 1973, SGF became quite clearly oriented towards industrial activities, therefore this investment no longer fitted in with new objectives. The co-shareholder transferred to Les Éditions La Presse Ltée its right of first refusal to acquire the shares which SGF had offered at a price of $1,472,500. This right of first refusal was granted in the 1971 agreement with Hachette International Canada Inc. The transaction enabled SGF to realize a profit of about $310,000 in terms of the 1971 cost of this investment. The gain was approximately equal to the share of net profits earned since the investment was made, not taking into account $578,000 in dividends received by SGF during the period it had been a shareholder.

Cegelec Industries Inc.
In the 1975 Annual Report, a medium-term advance of $500,000 was mentioned. At year-end, SGF agreed, concurrently with its partners, to convert the loan into common shares. The transaction improved the financial structure of this company which had begun a program of industrial conversion. This conversion followed the decision to abandon the production of ceramic line insulators due to an absence of satisfactory markets. With the full support of its industrial shareholders, Cegelec Industries will manufacture a new range of medium voltage equipment, a product based on advanced technology oriented towards the industrial market.

Human resources
In our 1975 Annual Report, special mention was made of the importance SGF attaches to its human resources, without which no enterprise would be able to grow and expand. Pages 8 and 9 contain a brief report of certain important activities which involved the personnel of companies in the Group during 1976.

Companies in the SGF Group
This Report contains, as did the Reports for the two previous years, a page devoted to each of the companies in which SGF holds a relatively substantial, if not a major, share. A report prepared by the senior executive of each company together with various financial information will enable you to better understand the position of each company.

Acknowledgments
Mr. Raymond Lavoie, elected to SGF's Board of Directors in 1964, and appointed Honorary Director in 1975 decided not to stand for re-election at the last Annual Meeting. The shareholders accepted his decision with reluctance. SGF would like to express its indebtedness and thanks to Mr. Lavoie for the outstanding contribution, complete devotion and sound advice he has always provided.

Mr. Guy Godbout, elected to the Board of Directors in 1971, also resigned and was elected to the Board of Marine Industries Limited, where his contribution was awaited with anticipation.
Mr. Godbout deserves our heartfelt thanks for his unfailing devotion and clearsighted, intelligent contribution to the affairs of SGF.

Finally, we would like to extend our warmest thanks to all the Directors, both at SGF and the companies in our group, for their unstinting collaboration throughout the year.

Chairman of the Board

Raymond David

President and Managing Director

Enhancing and developing human resources

It is obvious that, by its very nature, SGF's main objective is to ensure operational profitability. However, profit is not a goal in itself, but a prerequisite leading to reinvestment of capital, progress and growth, and resulting from the same common denominator: human resources. This is why the management of SGF and that of its affiliated companies place equal importance on human and economic factors. Through general behavioral patterns, attitudes, motivation and sense of responsibility, human resources determine to a considerable extent, the degree of success and progress achieved by any corporation.

Personnel

The total number of employees of companies in the Group rose to approximately 9,200 as of December 31, 1976. Sale of the Centre Éducatif et Culturel Inc. and the general slowdown in some of our companies contributed to a reduction in the number of employees during the year. Make-up is as follows: Marine Industries Limited, including its subsidiary Foresteel, 3,500 employees; B.G. Checo Limited, 1800; The Donohue Company Limited, including Donohue-St-Félicien, 1,680; Forano Limited, 930; Artopex Ltd., 350; Volcano Limited, 318; LaSalle Tricot, 248; Montel Inc., 219, and Cegelec Industries, 155.

Labour relations

1976 was a busy year from the point of view of labour relations. Some twenty-five collective agreements, covering most of the Group's companies, were signed to the satisfaction of all parties without a single work stoppage. Problems occurring during negotiations and during the time agreements were in effect, were solved thanks to the good will shown by both parties.

Most companies maintained excellent industrial relations due to the existing climate of frankness and mutual confidence.

Promotions

There were 150 internal promotions during 1976 compared to 100 the preceding year. Promotions occurred within the Group at the supervisory, middle management or senior management (General Manager or Vice-president) levels.

In addition, 75 members of the managerial staff had to be hired from outside to fill vacancies. This was not a particularly easy task due to geographical locations of several of our companies, recruitment of managerial staff continues to be a challenging preoccupation.

Professional training

Well-trained personnel derive greater satisfaction from their work, and thereby can make a greater impact on operational productivity. In the SGF Group, management is placing more and more emphasis on personnel training at all levels. Approximately 100 managers participated in seminars organized by SGF dealing with the following subjects: purchasing and supplies, finance for non-financial executives and management of human resources. Personnel development seminars implemented by the management of our companies have allowed several managers to increase their knowledge in such fields as planning and organization, recruiting and hiring, labour relations, business administration, communications, evaluation of personnel productivity, human relations, physical conditioning, etc.

In some companies, office personnel were given courses on work distribution, cost control and motivation. More than $500,000 has been invested to provide plant personnel with courses on welding, production methods, handling, industrial safety and accident prevention, plan reading, eye-sight protection, etc.

Because of its size and needs, Marine Industries continues to lead the group in the field of professional training, but other companies such as Forano and Donohue are steadily increasing their endeavours in this area.

In November 1976, SGF executives met with their counterparts in the affiliated companies to study the question of replacement and succession of management. During 1977, senior executives will study this question which should allow us to identify more clearly the aspects of the problem, to prepare general guidelines and to gradually arrive at solutions relevant to each company's needs.

Basic concepts

In their effort to enhance and develop human resources, the companies' management in the SGF Group will use a few very simple basic principles resulting from experience and research conducted over the years in the field of behavioral sciences in management.

- Companies must have intelligent, competent and dynamic managers. Thereby, selection of a strong management team requires in-depth analysis, the result of a gradually maturing process.

- Individuals must be placed in positions corresponding to their aptitudes and interests. Selection and placement of personnel must, therefore, be an important part of managerial duties. The task, much like the individual, is a dynamic reality.

- Employees must be kept busy at meaningful work as underemployment causes discontent. People are satisfied when they are fully employed and normally work better because they feel more needed, appreciated and useful.

- Reasonable job security, good salaries and other favorable working conditions must be offered.

- Professional training programs must be implemented at all working levels.

- Employees must be informed of their performance. Everyone wants to know as specifically as possible how he is evaluated. An efficient manager should know how to inform an employee of his usefulness to his department or company.

- Employees should be kept informed. Communications between the manager and his employees influence productivity and morale more than any other factor. Lack of information causes productivity loss. Management must periodically inform personnel of the company's objectives, policies and problems.

- Other people's ideas must be solicited and heard. Good downward communications will invariably result in good upward communications. Keeping personnel informed is only half the process. The other half consists in supplying employees with opportunities and means of expressing their ideas on the company's operating procedures. This type of participation cannot but help to stimulate dynamism and efficiency of personnel.

- Individuals' problems or grievances must be rapidly identified and solved. A person's productivity is always directly related to his state of mind. A minor unsolved problem may become a very important matter. However, good management does not allow problems to drag along and must promptly settle complaints or conflicts.

- A sense of responsibility must be developed. There is only one way to do this: give employees responsibilities and ensure they are adequately carried out. In order to effectively perform his duties, the employee must assume responsibilities for his actions and their consequences.

- Management must have the courage to eliminate incompetent employees at whatever level they may exist in the organization. This is an exigency of properly understood and applied human relations.

These basic concepts are being applied by the managers of the SGF Group in coping with the challenge of ensuring the compatibility of corporate objectives with individual expectations.

Jacques Villeneuve
Executive Vice-President

Summary of investments and operations

Investments in equity — at cost				
December 31, 1975		December 31, 1976		
($'000)	%	($'000)	%	
				Heavy Industry
20,603 (a)	86	20,603 (a)	86	Marine Industries Limited and its subsidiaries
2,820 (b)	94	2,820 (b)	94	
8,504	100	8,504	100	Forano Limited
1,001	100	1,001	100	Volcano Limited
32,928		32,928		
				Lumber and Paper
7,917 (a)	43	7,917 (a)	43	The Donohue Company Limited and its subsidiaries
—		16,962 (b)	63	
7,917		24,879		
				Electric Equipment, Contracting and Engineering
1,500	50	2,075	50	Cegelec Entreprises Inc. and its subsidiaries
—		1,200 (b)	100	
1,300	50	1,300	50	Cegelec Industrie Inc.
2,800		4,575		
				Others
861	100	861	100	La Salle Knitting Limited
200	100	200	100	Sofobec Ltd.
— (d)	100	— (d)	100	Soma Inc.
				Société générale de financement du Québec (after deducting dividends received)
1,061		1,061		
				Subsidiaries sold during the year
600	50	—		Bonnex Inc.
1,162	50	—		Centre Educatif et Culturel Inc. and its subsidiary
1,762		—		
				SUB-TOTAL
				Investments at equity value
285 (c)	50	289 (c)	50	Sogefor Ltd.
6,825	41	—		MLW-Worthington Limited
98	30	—		Montel Inc.
—		1,108	45	Artopex Ltd.
7,208		1,397		
				TOTAL
				Investments at cost (h)
—		6,825	9	Bombardier-MLW Limited
—		98	30	Montel Inc.
53,676		71,763		**TOTAL**

a) common shares
b) preferred shares
c) at book value
d) negative book value
e) before interest of minority shareholders of subsidiaries of the companies
f) after deducting dividends received from subsidiaries ($971,000 in 1976)
g) SGF's participation in the results of these companies
h) see Note 4 of the financial statements
i) operating results for six months ending June 30, 1976
* no income taxes due to losses of preceding years carried forward
** tax exempt corporations
*** restated figures

Year ended December 31, 1976			Year ended December 31, 1975			Changes in Results 1976 versus 1975	
Sales ($'000)	Net Income (loss) ($'000)	Participation ($'000)	Sales ($'000)	Net Income (loss) ($'000)	Participation ($'000)	Net Income (loss) ($'000)	Participation ($'000)
178,052	6,085	5,233	137,779	8,362 (e)*	6,958	(2,277)	(1,725)
44,889	(1,171) **	(1,171)	49,384	2,998 **	2,998	(4,169)	(4,169)
10,754	(514) **	(514)	11,161	244 **	244	(758)	(758)
233,695	4,400	3,548	198,324	11,604	10,200	(7,204)	(6,652)
67,130	6,141 (e)	2,012	58,084	6,877 (e)	1,901	(736)	111
76,689	(10,404) (e)	(5,173)	91,167	1,757 (e)***	868 ***	(12,161)	(6,041)
19,056	553 *	277	14,512	245 *	123	308	154
95,745	(9,851)	(4,896)	105,679	2,002	991	(11,853)	(5,887)
4,379	97 **	97	4,230	416 **	416	(319)	(319)
—	38 **	38	—	11 **	11	27	27
—	56 **	56	—	1 **	1	55	55
—	(523) (f)**	(523)	—	(877) (f)**	(877)	354	354
4,379	(332)	(332)	4,230	(444)	(444)	117	117
—	—	—	7,991	488	244	(488)	(244)
3,823 (i)	(92)	(46)	8,235	463	242	(555)	(288)
3,823	(92)	(46)	16,226	951	486	(1,043)	(532)
404,772	266	286	382,543	20,985	13,129	(20,719)	(12,843)
—	5 (g)	5	—	(185) (g)	(185)	190	190
—	—	—	—	297 (g)	297	(297)	(297)
—	—	—	—	78 (g)	78	(78)	(78)
—	198 (g)	198	—	—	—	198	198
—	203	203	—	190	190	13	13
404,772	469	489	382,543	21,175	13,319	(20,706)	(12,830)
404,772	469	489	382,543	21,175	13,319	(20,706)	(12,830)

Consolidated statement of earnings

year ended December 31,

	1976 ($'000)	1975 ($'000)
Gross income from operations	$404 772	$382 543
Earnings before the following	$ 26 624	$ 37 643
Provision for possible losses on contracts in progress (note 10)	10 400	1 100
Depreciation	6 659	5 272
Amortization of deferred charges	150	143
Interest and expense on long-term debt	1 918	1 849
Interest and expense on other debt	3 301	2 664
	22 428	11 028
Add		
Revenue from investments	1 278	1 412
Share in net earnings of affiliated companies (note 4)	203	190
Profit on sale of investments	130	57
	1 611	1 659
Deduct income taxes		
Current	4 690	9 624
Deferred	2 650	1 162
	7 340	10 786
(Loss) earnings before extraordinary items and interest of outside shareholders (note 11)	(1 533)	17 488
Extraordinary items (note 12)	2 002	3 687
Earnings before interest of outside shareholders	469	21 175
Deduct interest of outside shareholders in subsidiaries and affiliated companies		
Preferred shareholders	344	359
Common shareholders	(364)	7 497
	(20)	7 856
Net earnings for the year	$ 489	$ 13 319

Consolidated statement of retained earnings
year ended December 31,

	1976 ($'000)	1975 ($'000)
Retained earnings, at beginning		
As previously reported	$ 14 655	$ 2 086
Prior years' adjustment (note 13)	(1 973)	(2 499)
Adjustment of last years' earnings as a result of a change in the application of accounting principles described in note 2	35	
As restated	12 717	(413)
Net earnings for the year	489	13 319
	13 206	12 906
Write-off of a reserve for contingencies	222	
Sundry items (net)	(50)	(189)
Retained earnings, at end	$ 13 378	$ 12 717

Consolidated balance sheet
as at December 31,

Assets	1976 ($'000)	1975 ($'000)
Current		
Cash and deposits	$ 18 298	$ 11 250
Accounts receivable	70 493	74 647
Contracts and work in progress, inventories (note 3)	63 942	73 773
Prepaid expenses and claims	1 263	1 447
Souscription receivable on capital stock		5 000
	153 996	166 117
Holdbacks and claims receivable	4 115	1 339
Investments and deposits (note 4)	22 785	11 792
Fixed assets		
Property and equipment	137 321	121 336
Accumulated depreciation	(62 750)	(59 439)
	74 571	61 897
Construction work in progress	28 323	
	102 894	61 897
Other assets		
Excess of cost of investments in subsidiaries and affiliated companies over book value at dates of acquisition	3 761	4 529
Patents and other deferred charges, at amortized cost	271	415
	4 032	4 944
	$287 822	$246 089

Signed on behalf of the board

R. A. Rassé

Director

Raymond David

Director

Liabilities

	1976 ($'000)	1975 ($'000)
Current		
Bank indebtedness (note 5)	$ 30 507	$ 29 255
Accounts payable	59 656	64 466
Advances from the Shareholder (note 6)	1 008	
Current portion of long-term debt	5 237	2 180
Income taxes	920	4 923
Deferred income and deposits on contracts	4 576	4 555
Deferred income taxes	2 057	711
	103 961	106 090
Long-term debt (note 7)	26 119	21 319
Deferred income taxes	11 050	10 396
Provision for guarantees and contingencies	846	735
Interests of outside shareholders in subsidiaries and affiliated companies	55 448	31 356
Shareholders' equity		
Capital stock (note 8)	74 165	60 665
Retained earnings	13 378	12 717
Contributed surplus (note 9)	2 855	2 811
	90 398	76 193
	$287 822	$246 089

Consolidated statement of changes in financial position
year ended December 31,

	1976 ($'000)	1975 ($'000)
Financial resources were provided by:		
Funds from operations	$ 6 407	$ 22 559
Issue of capital stock	13 500	14 500
Increase in interest of minority shareholders (note 14)	26 105	
Working capital of a subsidiary at date of acquisition	2 193	
Increase in long-term debt (net)	2 346	76
Increase in long-term debt as a result of the acquisition of a subsidiary	2 685	
Special research costs, capitalized	598	
Increase in provision for guarantees on contracts	333	
Government grants	15	3
Proceeds from an insurance claim		725
Increase in deferred income taxes as a result of the acquisition of a subsidiary	591	
	54 773	37 863
Financial resources were applied to:		
Construction expenses	28 323	
Acquisition of fixed assets (net)	12 266	10 823
Acquisition of fixed assets of a subsidiary	8 883	
Acquisition of investments (net)	7 347	8 525
Acquisition of the working capital of a subsidiary	2 193	
Working capital of subsidiaries at date of sale	2 748	376
Increase in claims and holdbacks	2 776	291
Redemption of preferred shares	112	
Special tax on undistributed income	77	
Acquisition of minority interests		324
Working capital deficiency of a subsidiary at date of acquisition		41
Miscellaneous items	40	5
	64 765	20 385
(Decrease) increase in working capital	(9 992)	17 478
Working capital, at beginning		
As previously reported	59 445	42 453
Adjustment of balance at beginning as a result of restatements in certain subsidiaries	582	(486)
As restated	60 027	41 967
Working capital, at end	$ 50 035	$ 59 445

Notes to consolidated financial statements
as at December 31, 1976

1. Summary of significant accounting policies

a) Consolidation

The consolidated financial statements include the accounts of all subsidiaries and companies under effective control in which the Company participates actively in management. Companies included in the consolidation with percentages of ownership, are as follows:

	% of ownership 1976	1975
Marine Industries Limited and its subsidiaries	86	86
Forano Limited	100	100
Volcano Limited	100	100
*The Donohue Company Limited and its subsidiaries	43	43
Cegelec Enterprises Inc. and subsidiaries	50	50
Cegelec Industrie Inc.	50	50
LaSalle Knitting Limited	100	100
Sofobec Ltd.	100	100
Société de Montage Automobile-Soma Inc.	100	100
**Centre Éducatif et Culturel Inc. and its subsidiary	—	50
***Bonnex Inc	—	50

The results of operations of the above listed companies are included in the consolidated financial statements from the respective dates of acquisition and until the respective dates of disposition.

*Since December 31, 1976 the Company holds 55% of the voting stock but only 43% of the participating stock.

**As a result of the sale of this investment, only the earnings for the 6 months ended on June 30, 1976 are included in the consolidation. The share of the Company in the consolidated earnings of Centre Éducatif et Culturel Inc. amounted to net earnings of $242 000 in 1975 and a loss of $46 000 in 1976.

***As a result of the merger of Bonnex Inc. with an other company, both companies became wholly owned subsidiaries of Artopex Ltd. The Company now owns 45.1% of the capital stock of Artopex Ltd., the operating results of which are accounted for at equity value. (Note 4).

b) Investments

Investments in other companies under effective control are stated at equity value. All other investments are stated at cost.

c) Inventories

Inventories are valued at the lower of average cost and net realizable value.

d) Fixed assets

Fixed assets are stated at cost. Depreciation is computed on the straight line basis, based on estimated useful lives.

e) Excess of cost of investments in subsidiaries and affiliated companies over book value at dates of acquisition

This goodwill arises from acquisitions made before 1974 and is stated at undepreciated cost.

f) Income taxes and deferred income taxes

Earnings of wholly-owned subsidiaries of the Company are not subject to income taxes. Other companies liable to income tax use the deferred income tax method of accounting.

g) Earnings recognition

Earnings are recognized at the time the products are delivered or when services are rendered, with the exception of the earnings of one subsidiary, the principal activity of which consists in the management of engineering contracts. This subsidiary records its earnings on fixed price contracts, on the basis of the percentage of achievement, after it has reached 50%.

All anticipated losses on contracts in progress are provided for.

h) Foreign currency

Working capital elements have been translated into Canadian dollars at the rate of exchange prevailing at year end.

2. Change in valuation method

During 1976, certain subsidiaries have altered their valuation method of work in progress. This change has been applied retroactively, thereby increasing the consolidated earnings of the Company by $35 000 in 1975. Had this change not been taken into account, consolidated earnings for 1976 would have been $115 000 higher.

3. Contracts and work in progress, inventories

	1976 ($'000)	1975 ($'000)
Contracts and work in progress, at cost	$155 975	$133 862
Incurred portion of an estimated loss on a contract in progress in a foreign country (note 10)	(4 841)	(300)
	151 134	133 562
Less		
Progress billings	105 299	107 069
Temporary financing	40 879	3 875
	4 956	22 618
Inventories	58 986	51 155
	$ 63 942	$ 73 773

4. Investments and deposits

	1976 ($'000)	1975 ($'000)
Affiliated companies at equity value		
*MLW-Worthington Limited	$ —	$ 7 122
Sogefor Ltd.	2 359	2 385
Artopex Ltd.	1 835	—
Montel Inc	—	144
**Electrical Manufacturing Co. Ltd.	—	304
Joint ventures	408	93
	4 602	10 048
Other investments and deposits at cost		
*Bombardier-MLW Limited (Market value 2 071 875)	7 122	—
Montel Inc	448	—
Other minority shareholdings, mortgages and advances	2 613	1 044
	14 785	11 092
Deposits for the acquisition of shares	8 000	700
	$ 22 785	$ 11 792

Percentages of ownership are as follows:

	1976	1975
MLW-Worthington Limited	—	40 6%
Sogefor Ltd.	50.0%	50.0%
Artopex Ltd	45.1%	—
Montel Inc.	30.0%	30.0%
Electrical Manufacturing Co. Ltd.	—	30.4%
Bombardier-MLW Limited	8.5%	—

*As a result of the acquisition by an exchange of shares of Bombardier Limited by MLW-Worthington Limited, which has since become Bombardier-MLW Limited, the Company accounts for the investment at cost since its percentage of ownership has been considerably reduced.

**This company has amalgamated with Montel Inc. in 1976 and the Company now accounts for its investment in Montel Inc. at cost.

5. Bank indebtedness

	1976 ($'000)	1975 ($'000)
Secured by the assignment of accounts receivable and inventories, the carrying value of which is approximately $112 millions	$ 30 507	$ 28 255
Other	—	1 000
	$ 30 507	$ 29 255

6. Advances from the shareholder

At the time of its subscription to 2 700 000 deferred dividend shares of the Company in July 1976, the Quebec Government also agreed to pay an additional $2 223 450 to provide for the payment of interest costs on borrowings which the Company could incur in connection with its participation in the financing of the Donohue Company Limited and Donohue St-Félicien Inc., before the Minister of Finance disburses the amount of the subscription to capital and the amount of the loan which he has agreed to grant.

As at December 31, 1976, the Company had received $1 111 725 and incurred interest costs of $104 194, leaving a balance of $1 007 531 to be disbursed in 1977.

7. Long term debts

	1976 ($'000)	1975 $'000)
Bonds and debentures		
Sinking fund bonds, 6¾% to 8%, maturing from 1977 to 1988	$ 3 290	$ 4 151
Sinking fund debentures, 6½ to 11⅜%, maturing from 1980 to 1989	10 870	11 347
Debentures, guaranteed, at 2% above banking prime rate, maturing in 1979	240	610
	14 400	16 108
Less debentures held in sinking funds	154	377
	14 246	15 731
Notes payable secured by the assignment of assets	14 677	6 766
Mortgages and royalties	2 433	1 002
	31 356	23 499
Deduct current portion	5 237	2 180
	$ 26 119	$ 21 319

The payments required during the next five years for the retirement of the consolidated long-term debt are as follows:

	($'000)		($'000)
1977	$ 5 237	**1980**	$ 2 440
1978	3 563	**1981**	2 118
1979	3 095		

8. Capital stock

According to an Act to amend the Charter of Société générale de financement du Québec, assented to on June 18, 1976, the capital stock of the Company now stands as follows:

Authorized (shares of a par value of $10 each)

3 700 000 deferred dividend shares, convertible into common shares beginning on January 1, 1982. Upon conversion, the authorized number of deferred dividend shares is decreased by the number of shares converted and the authorized number of common shares is increased by an equal number

10 390 000 common shares

	1976 ($'000)	1975 ($'000)
Issued and paid		
1 350 000 deferred dividend shares, issued for cash during the year	$ 13 500	—
6 066 502 common shares	60 665	$ 60 655
	$ 74 165	$60 655

9. Contributed surplus

	1976 ($'000)	1975 ($'000)
Surplus arising from the recording of the book value of the financing in Sogefor Ltd., the original cost of which had been completely written-off	$ 2 510	$ 2 510
Government grants to subsidiaries	293	278
Gain arising from the redemption of preferred shares by a subsidiary	52	23
	$ 2 855	$ 2 811

10. Provisions for losses on contracts in progress

i) In 1974, a subsidiary entered into a fixed price contract, with limited indexation, covering a construction project in a foreign country. The company has provided for estimated losses as follows:

	Total loss	Loss recorded in 1976	1975
	($'000)	($'000)	($'000)
On work completed as at December 31	$ 5 941	$ 4 841	$ 1 100
Estimated loss to complete	4 059	4 059	—
	10 000	8 900	1 100
ii) Provisions in other subsidiaries	1 500	1 500	—
	$ 11 500	$ 10 400	$ 1 100

11. Loss before extraordinary items

The loss of $1 533 000 before extraordinary items includes $447 000 to be borne by minority shareholders.

12. Extraordinary items

	1976 ($'000)	1975 ($'000)
Income taxes recovered as a result of losses in prior years	$ 2 131	$ 3 663
Expenses now included in the capital cost of construction of a project	598	(692)
Increase of deferred income taxes resulting from the write-off of an income tax advantage for a loss carry forward accounted for in 1975	(578)	—
Profit (Loss) on sale or write-off of assets	(149)	716
	$ 2 002	$ 3 687

The share of the Company in these extraordinary items is $1 575 000 in 1976 and $3 249 180 in 1975.

13. Prior years adjustments

In prior years, profits and losses on disposals of investments were recorded in a special account entitled "Losses on investments". At the same time, that portion of the subsidiary's operating results which had occured during the control period were written off from consolidated retained earnings.

"Losses on investments" are now merged with retained earnings and profits and losses on sale of investments are shown in the consolidated statement of earnings.

That retroactive adjustment has thus increased the 1975 earnings by $57 000.

14. Minority interests

The increase in minority interests results from their participation in the Donohue St-Félicien Inc. project. The interests of the Company in this project are described in note 15.

15. Commitments and contingent liabilities

a) Donohue St-Félicien project

Donohue St-Félicien Inc., a subsidiary 60% held by the Donohue Company Limited, has undertaken the development of an integrated forestry complex including the expansion of three existing sawmills and the construction of a kraft pulp mill with an annual capacity of 260 000 tons. The total net cost of the project is estimated at $270 000 000 and completion is expected by the end of 1978.

This subsidiary will achieve the financing of the project by the issue of $70 000 000 of capital stock, by the sale of $125 000 000 of first mortgage bonds, and $25 000 000 of subordinated debentures and by government grants of $50 000 000.

The Donohue Company Limited has subscribed $42 000 000 to the capital stock of its subsidiary of which $25 000 000 has been paid as at December 31, 1976. The funds required to fulfill this subscription to capital stock will be provided by $7 500 000 in deposits and investments set aside for this purpose (see note 4) and by long-term financing of $9 000 000. In addition, the company has agreed to provide its subsidiary, beginning March 31, 1979, with the funds required, if necessary, to meet the payments of capital and interest on the first mortgage bonds, up to a maximum of $7 500 000.

The Company acquired 1 696 233 convertible preferred shares of the Donohue Company Limited in 1976 for the sum of $16 962 330 and has agreed to purchase $25 000 000 of subordinated debentures of Donohue St-Félicien Inc., in 1977. The funds required will be raised in accordance with the Act mentioned in note 8, by a subscription from the Minister of Finance of the Province of Québec to 2 700 000 deferred dividend shares, having a par value of $10 each, of which 1 350 000 have been issued and paid for in 1976 and the balance to be paid for and issued in 1977, and a term loan of $15 000 000 which the Quebec Government has agreed to disburse during the years 1977 and 1978.

In addition, in accordance with the terms of agreements to become effective on April 1, 1977 the Company may, under certain conditions, be called upon to supply the funds needed for the completion of the project. Any excess of actual costs over budgeted costs will be financed as follows: for the first $35 millions, by the issue of additional first mortgage bonds up to a maximum of $10 millions and a long-term bank loan of $25 millions guaranteed by the Company. Beyond this amount the Company will make direct advances to Donohue St-Félicien Inc. The Company has also agreed to supply the funds needed to meet interest and capital payments on the first mortgage bonds, should these funds not be available otherwise. These commitments of the Company are guaranteed by the Quebec Government, in virtue of orders in council, dated January 5, 1977.

b) Endorsements and guarantees

The Company has endorsed its subsidiary Marine Industries Limited in order to guarantee:

i) The reimbursement to the co-partners in the joint venture, "Le Consortium La Grande", of possible losses arising from the fault of Marine Industries Limited.

ii) The performance of its obligations as guarantor to the lender in the financing of the purchase of six ships to be built in the next two years. The guarantee is limited to $5 millions per ship and may be enforced against the Company within five years following the delivery of each ship.

c) Lawsuits and assessments

Certain companies have been sued for damages and sued and assessed for the recovery of taxes on income and sales taxes amounting to $2 411 000. All these assessments and lawsuits are being contested and no provision has been recorded in the books.

d) Marine Industries Limited — Lawsuits related to dredging contracts

Marine Industries Limited, together with other Canadian companies and certain of their officers, has been accused of conspiracy to defraud the Government of Canada of an amount of $1 662 000 in connection with certain dredging contracts. Following a preliminary inquiry the company has been sent to trial. However the company's legal counsels assert that they have the proper elements to present a valid defense. Should the company be found guilty, it could be subject to a fine which is impossible to determine at this date.

The Government of Canada is claiming jointly from the company and other companies an undetermined amount for damages in connection with certain dredging contracts. Such claim was made as a cross-demand in a legal action taken by other Canadian companies for the reimbursement of holdbacks on contracts, none of which was payable to Marine Industries Limited. Legal counsels are of the opinion that this claim is ill-founded.

Together with certain individuals and other companies, the Company has been sent to trial under a charge of conspiracy to allow an individual to evade income taxes on an amount of $255 000. Based on their knowledge of the evidence, legal counsels are expecting an acquittal. No provision relating to these lawsuits has been recorded in the books.

e) Actuarial deficits

The actuarial deficits of the pension plans of the companies amount to $1 862 000 and will be amortized by annual contributions of $177 000 ending in 1990.

f) Leases

The principal leases under which the companies are bound and which mature at various dates until 1987 amount to $5 960 000.

16. Comparative figures

Certain 1975 figures have been reclassified in order to make them comparative to the corresponding figures of 1976.

17. Subsequent events

At the beginning of 1977, the Company has agreed to provide Cégélec Entreprises Inc. with a long term financing of $3 millions and the co-shareholders in Cégélec have also agreed to provide a similar amount.

In early 1977, the Company has guaranteed the fulfillment of all the commitments of Marine Industries Limited to its partner in a joint venture contract and it has also guaranted the fulfillment of all the commitments of the joint venture itself, jointly with the parent company of the co-partner.

18. Anti-inflation measures

Certain of the subsidiaries of the Company are subject to the anti-inflation measures enacted in the fall of 1975 by the Federal government and they must conform to the guidelines covering prices, profits, compensation and dividends.

Auditors' report

To the Shareholder of
Société générale de financement
du Québec

We have examined the consolidated balance sheet of Société générale de financement du Québec as at December 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year ended on that date. Our examination of the financial statements of Société générale de financement du Québec and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries and affiliated companies.

In our opinion, these consolidated financial statements present fairly the financial position of Société générale de financement du Québec as at December 31, 1976, the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the change in the valuation method of work in progress, as described in note 2.

Samson, Bélair & Associés

Samson, Bélair & Associés
Chartered Accountants

Montreal, March 31, 1977

Marine Industries Limited

For Marine Industries Limited and its subsidiary, Foresteel Industries Limited, the 1976 fiscal year was once again marked by intense activity in the three operating divisions. The employment level averaged 3,800, and production facilities of its shops and shipyard were used to capacity.

1976 operations produced an operating profit of $8,817,000 before provisions relating to the re-opening of negotiations on a contract signed in 1974. This result is the highest in the company's history. Profits before taxes and extraordinary items were $7,565,000. Deferred taxes of $1,480,000 were applied to the 1976 results while all taxes on 1975 results were recoverable because of prior years' losses. Net profits for 1976 were $6,085,000 compared to $8,326,000 in 1975.

During the year, additions were made to fixed assets of $2,733,000. These were mostly related to naval construction facilities and were financed out of the Company's working capital.

Shipbuilding

During the year, the shipyards delivered six ships, four Marindus multi-purpose cargo vessels and two tankers. Four multi-purpose ships had been delivered in 1975. At the start of 1977, firm orders include seven Marindus cargo-boats and three tankers to be delivered in the period extending to June 1978.

Should new orders not be soon forthcoming, the present crisis in the shipbuilding industry will certainly have a short and medium term effect on this division's activities. This crisis which in all probability will not be resolved before the 1980's, is the worst since 1936 with a world excess capacity of 40%. The impact on the Company's financial situation could be very serious because of the overall importance of naval construction for the Company, from both the point of view of the number of jobs and the use of facilities.

Hydro-Electric

In 1976, this Division also operated at a very satisfactory level despite the fact that volume of completed business was less than the previous year: $17.2 million compared to $22.3 million. Except for a contract in Ecuador, all work carried out was for Hydro-Quebec. At the start of 1977, the order-book showed $110 million of work extending to 1982. The main item is for the construction of 8 turbine-generator units and the site erection of 16 turbine-generator units for the LG-2 project. Just recently, the Company formed a consortium with Dominion Engineering Works Ltd. to negotiate the construction and installation of the turbine-generator units for LG-3.

Railcar Division

During 1976 we delivered 1,712 freight cars, compared to 1,722 in the preceding year, representing sales of $55 million and $47.7 million respectively. This Division which started 1977 without any firm order was recently awarded a contract for 488 cars. Since the upswing in industrial investments is still very slow in coming, this Division's 1977 operating volume will be considerably affected.

The Company will continue with its objective of improving overall productivity by means of greater diversification thus allowing us to attain greater stability and to become less vulnerable to business cycles. In 1977, we will do our utmost to obtain new orders in order to stabilize the level of employment.

Laurent Picard
President and Chief Executive Officer

Summary of operating results ($'000)

	Sales	Operating profit (loss)*
1976	$178,052	$ 7,565
1975	137,779	7,698
1974	107,483	1,695
1973	77,027	(11,188)
1972	106,553	2,154

* before income taxes, minority interests and extraordinary items

Condensed balance sheet ($'000)

December 31	1976	1975*
Current assets	$ 35,901	$ 44,231
Current liabilities	24,437	35,206
Working capital	11,464	9,025
Fixed assets — at cost less accumulated depreciation	19,718	18,315
Other assets	4,069	1,317
	$ 35,251	$ 28,657
Deferred income taxes	$ 425	$ —
Provision for guarantees	846	513
Long-term debt	216	255
Shareholders' equity	33,764	27,889
	$ 35,251	$ 28,657

* restated figures

Forano Limited

The 1976 fiscal year was unsatisfactory. Uncertain economic conditions led our regular clients to reduce capital investments which consequently caused us to record a loss.

The slow-down in the forestry industry, attributable to labour unrest, produced exceptional losses which in turn wiped out all operating profits. The truth of the matter is that we had to devalue inventories, wind up a subsidiary which had been operating at a loss, and honour certain endorsements. In all, this involved an aggregate of some one and one-half million dollars. On the other hand anticipating that the industry would pick up around the middle of the year, we invested nearly one million dollars in research and development of new products.

This latter investment offers great promise, even though the upturn in business activity is still to come and notwithstanding the rather grim outlook for 1977 investments in plant and equipment. As a matter of fact, talks with world industry leaders are well underway with the goal of closing sales of continuous slashers which is a new piece of forestry equipment.

In the last fiscal year, the outstanding achievement was the incorporation of an international subsidiary which will develops Latin-American lumber markets.

Therefore we enter 1977 with encouraging possibilities on international markets and orders on hand totalling some $11 million.

Jacques A. Sincennes
President and General Manager

Summary of operating results ($'000)	Sales	Operating profit (loss)*
1976	$ 44,889	$ (1,071)
1975	49,384	3,098
1974	47,655	3,385
1973	34,936	1,959
1972	26,996	2,031

* before income taxes and extraordinary items

Condensed balance sheet ($'000) December 31	1976	1975*
Current assets	$ 23,853	$ 29,722
Current liabilities	13,387	18,140
Working capital	10,466	11,582
Fixed assets — at cost less accumulated depreciation	3,457	3,147
Other assets	1,495	157
	$ 15,418	$ 14,886
Long-term debt	$ 5,628	$ 3,787
Shareholders' equity	9,790	11,099
	$ 15,418	$ 14,886

* restated figures

Volcano Limited

For Volcano, 1976 was a disappointing year. In fact, operating losses amounted to $514,000. This compares with an average before-tax profit of $227,000 for the years 1972 to 1975 inclusively.

Various factors account for this poor showing. The main cause is that, as of December 31, 1976, the volume of boiler shipments was $800,000. less than the previous year.

Commencing November 1976, corrective measures were taken to restore the firm's profit position. Fixed costs were substantially reduced, certain management employees were transferred to positions where their particular talents should be put to better use during 1977, and the organisational structure was simplified in order to accelerate the decision-making and control process.

Notwithstanding that Volcano must negotiate plant and office personnel collective agreements in 1977, two very favourable conditions exist which enable the firm to face the coming year with confidence. On the one hand, the work climate is excellent because parties involved are well-informed of each other's problems, and are trying to solve them. On the other hand, Volcano now has a wider range of products in its own field of activities, which should enable it to secure a greater share of the market once the industrial sector begins to improve.

Management very much depends on continued employee cooperation at all levels in order to attain its 1977 objectives.

Jacques Villeneuve
Chairman of the Board

Summary of operating results ($'000)	Sales	Operating profit (loss)*
1976	$ 10,754	$ (514)
1975	11,161	244
1974	8,840	172**
1973	7,637	277
1972	6,500	215

* before income taxes
** restated figure

Condensed balance sheet ($'000) December 31	1976	1975
Current assets	$ 5,214	$ 6,069
Current liabilities	4,266	4,625
Working capital	948	1,444
Fixed assets — at cost less accumulated depreciation	1,846	1,529
Other assets	177	87
	$ 2,971	$ 3,060
Long-term debt	$ 879	$ 820
Shareholders' loan	1,252	885
Shareholders' equity	840	1,355
	$ 2,971	$ 3,060

The Donohue Company Limited

and its subsidiaries:
Donohue Brothers Sales Corporations
Charlevoix Paper Company Limited
Malbaie Paper Company Limited
Donohue St-Félicien Inc.

Positive results, growth and expansion were achieved by the Company in 1976 despite the rather difficult situation in which the industry as a whole found itself. As a matter of fact, total sales reached $67,000,000 while net profits, after providing for extraordinary items, amounted to $5,023,000 or $2.60 a common share. Net operating profit was $4,241,000 or $2.17 per common share, down from $5,472,000 or $2.83 per share in 1975.

Since nearly all production is exported to the United States, and the Canadian dollar maintained itself at a premium over the American during most of the year, a reduction of revenue of $1,500,000 was recorded. Total shipments are off some 4% from 1975. Finally, unfavourable lumber prices and the devaluation of sawmill chip stocks at year end are the main factors contributing to the drop in operating profits when compared to 1975.

Fixed assets valued at $2,000,000 were added to those required to develop the mill at Clermont. Of this amount, some $815,000 was used to improve the quality of life and environmental protection. Labour agreements expiring at the beginning of the year were all renewed. Our employees now enjoy better working conditions and incentives to accomplish their daily tasks.

Without a doubt, the most significant event in 1976 for our Company, was the start of work on the integrated forestry complex project at Saint-Félicien, by our subsidiary, Donohue-St-Félicien Inc., in which we hold a 60% interest.

At year end, we were pleased to note that work in progress was only slightly behind schedule. We anticipate that the bleached pulp kraft mill with an annual capacity of 262,000 tons, will be ready for production during the second half of 1978. Regrouping in this subsidiary of the three sawmills was completed during the year. In addition, the program for increased woods operations and improvement to the sawmills is also progressing according to plan, which would indicate that we will be in a position to meet the pulp mill's requirements when the time comes.

Our Company invested $42,000,000 in this subsidiary, of which $27,000,000 is new capital raised through an underwriting of convertible preferred voting shares, $9,000,000 is provided by long-term financing to be completed in April 1977, and the balance of $6,000,000 will come from our own financial resources.

Finally, the 1977 outlook for the Canadian pulp and paper industry appears slightly better than what was experienced in 1976. Our newsprint shipments will to all appearances be maintained at last year's level, while the lumber and chips markets continue to be very uncertain.

E. P. Walsh
President and Chief Executive Officer

Summary of operating results ($'000)	Sales	Net operating profit
1976	$ 67,130	$ 5,023
1975	57,997*	4,780
1974	51,634	4,986
1973	38,158**	3,041
1972	38,688**	1,541

* excluding a gain on redemption of long-term debt
** includes the revenue resulting from the rental of a paper machine converted for comparison purposes into an estimated sales amount.

Condensed balance sheet ($'000) December 31	1976	1975
Current assets	$ 51,131	$ 30,723
Current liabilities	27,904	8,863
Working capital	23,227	21,860
Fixed assets — at cost less accumulated depreciation	43,127	29,792
Construction work in progress	28,323	—
Other assets	8,766	2,075
	$103,443	$ 53,727
Deferred income taxes	$ 10,626	$ 10,297
Minority interests	19,903	2,116
Long-term debt	12,740	11,207
Shareholders' equity	60,174	30,107
	$103,443	$ 53,727

Cegelec Entreprises Inc. and its subsidiary B.G. Checo Engineering Limited

Results for the fiscal year ended December 31, 1976 are extremely disappointing: a $10,346,000 loss on sales of $86 million, whereas in 1975 a $1,734,000 profit was earned on an income of $91 million.

A special provision of $8,900,000 accounts for most of this loss. This measure had to be taken due to an estimated loss on an overseas contract entered into by our international subsidiary in 1974 and which we expect will be completed this year. Needless to say, every available measure is being taken to improve the situation, beginning with negotiations to endeavour to remove an indexation ceiling on Canadian materials and on Iranian labour and supplies, extending on to requests for cash advances against claims for all delays and other incidents occurring which were beyond our control.

To make matters worse, during 1976, the Company experienced work slowdowns and a lengthy strike at most of Quebec work-sites. These slowdowns and the strike which affected all building trades in Quebec, obviously delayed work performance and led to substantial revenue losses and created additional costs. The work climate in Quebec's building trades now seems to have stabilized and it is hoped that a reasonable equilibrium will be achieved during 1977.

Faced with a distressing financial situation caused by the year's operating results the shareholders agreed at the beginning of March 1977 to inject additional funds amounting to $6 million, thereby providing to the Group the necessary liquidity it requires to carry on its operations.

At the beginning of 1977 there are $60 million in firm orders on hand and substantial contracts are being contemplated which should allow all divisions of the Group to return to a normal level of profitability.

Roland Olivier
President
Cegelec Entreprises Inc.

Henri F. Béique
President and General Manager
B.G. Checo Engineering Limited

Summary of operating results ($'000)	Sales	Net operating profit (loss)
1976	$ 76,689	$(10,346)
1975	91,305*	1,734*
1974	51,276*	458
1973	46,440	(144)
1972	31,879	39

* restated figures

Condensed balance sheet ($'000) December 31	1976	1975*
Current assets	$ 29,753	$ 40,528
Current liabilities	32,334	35,043
Working capital	(2,581)	5,485
Fixed assets — at cost less accumulated depreciation	1,937	1,760
Other assets	709	191
	$ 65	$ 7,436
Minority interests	$ —	$ 58
Long-term debt	2,957	1,097
Shareholders' loan	1,200	1,160
Shareholders' equity	($4,092)	5,121
	$ 65	$ 7,436

* restated figures

Cegelec Industrie Inc.

Results for the year ended December 31, 1976 show a pronounced improvement over the preceding year. On the whole, all industrial operations were ahead and sales amounted to $19 million.

Technological change obliged us to shut down our ceramic line-insulator manufacturing operations last December. We submitted to our Board of Directors, a five-year reconversion and feasibility plan aimed at doubling our present production of insulating columns and creating a new operation based on Low and Medium Voltage equipment using the SF6 technique. This new technology certainly augurs well for the future. Realization of this program will be spread over a two-year period and will require investments in the order of $2 million — close to one hundred new jobs will be created.

In our other activities, the order-book for circuit-breakers, disconnectors and compressor stations, should help us maintain our present sales volume and satisfactory results are anticipated.

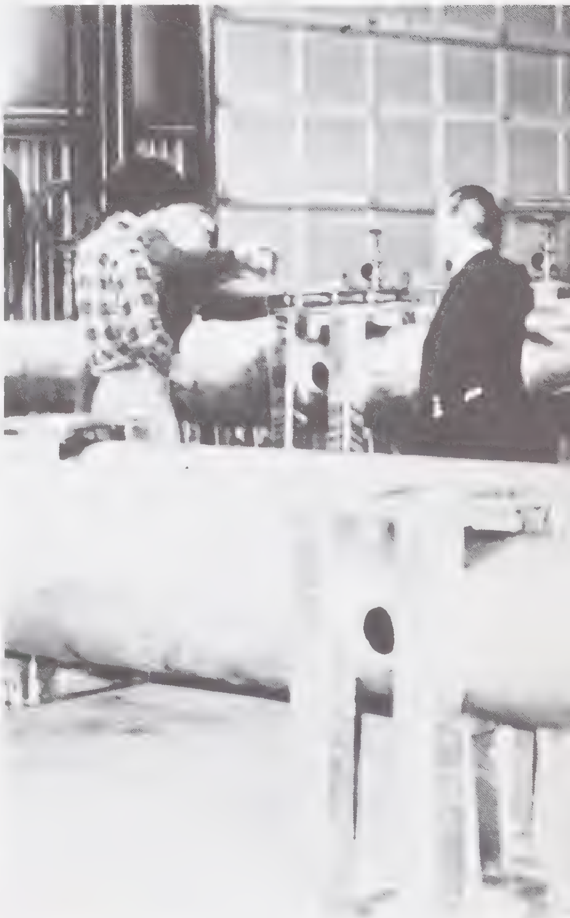
1976 was the year we began reconversion with the development of high technology products aimed at the Canadian market. Our objectives are not only to increase sales but also to improve the profit picture.

Roland Olivier
President and General Manager

Summary of operating results ($'000)	Sales	Operating profit (loss)*
December 31 1976	$ 19,056	$ 923
December 31 1975	14,512	245
December 31 1974**	4,343	(534)
June 30 1974	11,793	(156)
June 30 1973	8,726	(513)
June 30 1972	8,903	184

* before income taxes and extraordinary items
** for six months ending December 31, 1974

Condensed balance sheet ($'000) December 31	1976	1975
Current assets	$ 9,137	$ 10,022
Current liabilities	6,244	8,318
Working capital	2,893	1,704
Fixed assets — at cost less accumulated depreciation	795	1,455
Other assets	—	109
	$ 3,688	$ 3,268
Long-term debt	$ 219	$ 352
Shareholders' loan	1,000	1,000
Shareholders' equity	2,469	1,916
	$ 3,688	$ 3,268



La Salle Knitting Limited

1976 ended with a sales increase of some $150,000 over the preceding year. This result was achieved notwithstanding the crisis conditions which continue to plague the entire manufacturing sector.

Increased clothing and textile imports from the Far East in 1976 had considerable impact, since it is estimated that they rose by 52% over the preceding year. These countries — Taiwan, Korea, Hong Kong, etc. — enjoy marked advantages over Canada where salaries are concerned. As a result, they have become the almost exclusive suppliers of low-priced clothing to the Canadian market. This situation greatly affected operating results in the second-half of the year.

Despite these conditions, profits before taxes amount to about $100,000. When compared to the preceding year, lower 1976 profits are due to sharply higher labour costs and to a lower sales volume during the second half.

Emergency measures enacted last November by the Federal government with a view to bringing Canadian import volume back to its 1975 level, is a positive factor which may enable us to restore our profit margins to a more acceptable level.

Jean Raymond, C.A.
President and General Manager

Summary of operating results ($'000)	Sales	Operating profit) (loss)*
1976	$ 4 379	$ 97
1975	4,230	416
1974	4,165	317
1973	3,156	(145)
1972	3,892	(332)

* before income taxes and extraordinary items

Condensed balance sheet ($'000) December 31	1976	1975
Current assets	$ 2,587	$ 2,269
Current liabilities	1,425	1,059
Working capital	1,162	1,210
Fixed assets — at cost less accumulated depreciation	851	827
Other assets	22	28
	$ 2,035	$ 2,065
Long-term debt	$ 588	$ 708
Shareholders' equity	1,447	1,357
	$ 2,035	$ 2,065

Artopex Ltd.

On April 5, 1976 regrouping of Artopex, Bonnex and Artena was completed. This development was announced in SGF's 1975 annual report.

This merger materialized the integration under one management of three firms operating in complementary fields: office furniture, that is metal furniture (Bonnex Inc.); wood furniture (Les Meubles Opus Inc., a 100% owned subsidiary of Bonnex Inc. since January 6, 1977), and upholstered office chairs and divisions (Compagnie Artena Limitée).

1976 consolidated sales, excluding Opus Division, just about equal those of 1975. The unchanged sales picture is largely due to compressed purchasing budgets for office furniture of different governements and para-governmental organizations.

Operating profits before taxes decreased by 5%, — from 11.4% in 1975 to 6.4% of sales in 1976. As sales were maintained at last year's level, decrease in profits are attribuable to increased labour and raw material costs.

Indications are that 1977 will be a very difficult year. In our field of endeavour, we do not expect to see much of a business upswing before the beginning of 1978. In order to remedy this situation, the firm has developed a few new products and conceived a new sales promotion system aimed at increasing the volume of commercial and industrial sales, thereby compensating for the few contracts expected from the public sector.

Guy Bonneau
President

Sogefor Ltd.

Sogefor Ltd. completed the year 1976 with a net profit of almost $10,000. Excluding a change in the application of accounting procedures, operations for last year show a loss of $110,000, as compared to a loss of $370,000 for the previous year. This is a significant improvement when we take into account the strike of several weeks and a difficult economic situation characterized by a low level of residential housing starts and a marked decline in the furniture industry.

The partnership between SGF and the James Maclaren Company Limited continues to prove extremely beneficial: technological changes have made possible a worthwhile increase in productivity along with a significant reduction in direct manufacturing costs. As a result, the company may be able to occupy a stronger position in this market which has become extremely competitive, particularly since the devaluation of the Canadian dollar.

Management remains confident that 1977 will bring more favourable results: a slight increase in prices is anticipated. Equally, the last few year's efforts to improve product quality to ensure a wider range of product use should begin to pay off.

Albert-Hugo Locher
Managing Director

Summary of operating results ($'000)	Artopex Ltd. Sales	Artopex Ltd. Net operating profit (loss)	Sogefor Ltd. Sales	Sogefor Ltd. Operating profit (loss)*
1976	$11,388	$435	$5,007	$ 9
1975	11,681	797	4,571	(370)
1974	—	—	3,882	117
1973	—	—	5,116	1,050
1972	—	—	2,950	(97)

*before income taxes and extraordinary items

Condensed balance sheet ($'000) December 31	Artopex 1976	Artopex 1975	Sogefor 1976	Sogefor 1975
Current assets	$4,681	$6,019	$1,112	$1,037
Current liabilities	2,899	4,341	556	570
Working capital	1,782	1,678	556	467
Fixed assets — at cost less accumulated depreciation	1,595	1,317	2,155	2,422
Other assets	65	170	—	—
	$3,442	$3,165	$2,711	$2,889
Deferred income taxes	$ 172	$ 114	$ —	$ —
Long-term debt	916	880	—	—
Shareholders' loan	—	—	2,132	2,320
Shareholders' equity	2,354	2,171	579	569
	$3,442	$3,165	$2,711	$2,889

Donohue St-Félicien Inc.

History

The domanial forest at Saint-Félicien in Roberval Country is the largest timber limit in North-America (nearly 8,000 square miles) as yet unexploited on the basis of an overall plan. Some 6 small and medium-sized sawmills already had cutting rights in the southern sector of the forest before the project was announced in April, 1976.

Between 1960 and 1972, two important Canadian and American pulp and paper companies studied one after the other, the possibility of setting up a forestry complex at Saint-Félicien.

At the beginning of 1973, The Donohue Company Limited, ("Donohue") a 43% owned subsidiary of SGF, made an offer to the Québec Department of Lands and Forests expressing interest in developing this famous national forest. For some time Donohue had been seeking ways to diversify its operations, as they had more or less reached the limit of their capacities in both wood-supply and newsprint production. In the autumn of 1974, the Québec Government as the sole shareholder of SGF strongly supported the latter and its subsidiary in going ahead with the project, and assured them of the appropriate guarantees, since it was a well-known fact that the costs of implementing such a project were beyond Donohue's financial resources.

The Partners

Donohue management was also well aware that it did not possess all of the technical resources and commercial support needed to minimize the risks and hazards involved in starting a project of this magnitude. In July 1975, Donohue management agreed with officials of British Columbia Forest Products Limited (BCFP) to form a joint subsidiary — Donohue St-Félicien Inc. — as the corporate entity responsible for carrying out the project. Shares of the new Company are held by Donohue (60%) and BCFP (40%). These two firms agreed to subscribe $42 million and $28 million respectively of the new subsidiary's capital stock. BCFP is a company whose operations are entirely concentrated in British Columbia; it carries out substantial forestry operations, and operates two kraft pulp mills and a newsprint mill. BCFP has been very successful, particularly with the last pulp mill whose construction was completed in 1973. The BCFP technical team that has achieved this last project, together with Donohue representatives and senior management of the new organization, will assume the design, development and construction of the new pulp mill.

The Project Itself

The project consists in building a bleached kraft pulp mill with an annual capacity of 262,000 tons (or some 760 tons per day during 345 working days). It is anticipated that at a later date (i.e. approximately 8 to 10 years after pulp mill operations have started), production of newsprint and/or fine paper and/or kraft paper, will be added.

To ensure adequate raw material for the pulp mill, the project master plan required the purchase of the 3 most important existing sawmills already possessing cutting rights in the south sector of the Saint-Félicien forest. These sawmills are Produits Forestiers M.P. Inc., Chibougamau Lumber Ltd. and Scierie Normandin. New agreements were then reached with the Department of Lands and Forests substantially increasing the cutting rights of each of these sawmills, a prerequisite in order to meet the new mill's needs. The plan also includes a more rational policy of tree-harvesting, in order to facilitate reforestation.

Total cost of the project is estimated at $300 million. Its implementation will create 950 new jobs: 300 at the pulp mill, and 650 at the sawmills. In addition, it will stabilize some 980 workers currently employed at the sawmills and in the forest. These latter positions will no longer be affected by economic cycles, as there will be a constant flow of fibre needed for the proper functioning of the new mill.

Marketing
Donohue St-Félicien has retained the services of Mead Pulp Sales, a subsidiary of the Mead Group in the United States, who is one of the major shareholders of BCFP. Mead Pulp Sales has made long term arrangements for the sale of at least 250,000 tons of kraft pulp each year. Although most clients are located in the United States, a substantial percentage of sales will be to European markets, with a very limited amount being sold in Canada.

Financing
In addition to the $70 million subscribed by its shareholders, Donohue St- Félicien:

- will receive grants totalling $50 million under a Federal-Provincial agreement signed April 21, 1976 (the share of the Canadian government is 60%, and of the Québec government, 40%);

- will borrow $25,000,000 from SGF, in the form of subordinated debentures, redeemable between 1988 and 1977 in equal instalments;

- will borrow $125,000,000 and possibly $135,000,000 in the form of first mortgage bonds subscribed by financial institutions in the United States and Canada, and redeemable in 16 equal instalments between 1981 and 1997; and

- will have to generate from its sawmill operations, between the date of their purchase in 1976 through to the end of 1979, and from proceeds of the operations of the kraft pulp mill in 1979, internal funds amounting to approximately $30 million.

The role played by SGF
As indicated in the preamble to the annual message on page 4 of this report, SGF has assumed a primary role in launching this project. On the surface, this seems to be a difficult and thankless role, as it has a high risk content. However without SGF's contribution, the St-Félicien project would in all likelihood never have begun. If the St-Félicien project had never been realized, economic development would have suffered, depriving an important Québec region of a large scale project of this nature, so long awaited by the population.

It is true that risks do exist, since SGF:

- has agreed, under certain conditions, to supply adequate funds to complete the project should there be cost overruns. SGF has the right to monitor costs as they develop, and would be in position to decree abandonment of project should its cost reach "excessive" dimensions. However, if SGF were to find it necessary to advance funds under this agreement, it would receive free shares of Donohue St-Félicien together with its advances made in the form of subordinated debentures;

- has agreed to advance the necessary funds to Donohue St-Félicien should it not have sufficient liquidity either to meet interest payments or principal repayments on the first mortgage bonds. In this case also, should this agreement become effective, SGF would receive 100 free shares of Donohue St-Félicien for each $1,000 advanced either in the form of subordinated debentures (for advances covering interest payments) or in the form of second mortgage bonds (for advances covering repayment of the principal). SGF will be relieved of its responsibility, as soon as Donohue St-Félicien's operating profits have reached sufficient levels to meet the normal criteria generally applied in financial markets, for protection of interest payments on long-term debt.

SGF feels that its reward for assuming these risks goes well beyond the Donohue St-Félicien free shares it might receive as a result of any advances it may be called upon to make. Actually, it allows the Government of Québec as Donohue's major shareholder, to participate in the economic benefits of a project of this size; not only the benefits resulting from the implementation of the project, but especially those accruing from its long-term operation.

The Québec Government, by placing the forest — a public heritage — at the disposal of Donohue St-Félicien, has ensured that the entire community will benefit from its rational exploitation. Realization of the St-Félicien project has another dimension as well: it is the result of pooled resources, those of the private sector together with the Governments. More than ever before, the government will have an important role to play in large scale industrial developments, particularly those that are oriented toward natural resources, and in SGF's opinion the presence of sophisticated and experienced industrialists can ensure the ultimate success of such projects.

Companies in the SGF group

		Products
Marine Industries Limited *Head office* Suite 910, 1010 Sherbrooke Street West, Montréal, Qué.	*Shipyard and works* Tracy (Sorel) Qué.	Shipbuilding and ship repairing, railway cars, hydro-electric and heavy equipment
Subsidiary Foresteel Industries Limited	*Plant* 10,705 Henri-Bourassa Boulevard East, Montréal, Qué.	Custom built steel products
Forano Limited *Head office and plant* 1600 Saint-Paul Street, Plessisville, Qué.	*Sales offices* Halifax, Moncton, Montreal, Val-d'Or, Plessisville, North Bay, Toronto, Woodstock, Thunder Bay, Prince George, Vancouver	Mechanical and industrial equipment, sawmill machinery, mobile forestry equipment agriculture equipment, grey iron
Volcano Limited *Head office and plant* 2020 Sainte-Anne Street, Saint-Hyacinthe, Qué.	*Branches* Québec, Trois-Rivières, Sherbrooke, Ottawa, Toronto, Montréal	Industrial boilers
The Donohue Company Limited *Head office* Suite 208, 500 Grande-Allée Boulevard East, Québec, Qué.		
Subsidiaries Donohue Brothers Sales Corporation		
Charlevoix Paper Company Limited	*Mills* Clermont, Charlevoix County, Qué.	Newsprint
Malbaie Paper Company Ltd.		
Donohue St-Félicien Inc. *Business office* Suite 3500, 1155 Dorchester Boulevard West, Montréal	*Pulp mill (under construction)* Saint-Félicien, Roberval County, Qué.	Bleached kraft pulp
	Saw mills Saint-Thomas-Didyme, Normandin, Girardville and Chibougamau Park, Lac-Saint-Jean Ouest, Qué.	Lumber and wood chips
Cegelec Entreprises Inc. *Head office* 1400 Industrial Boulevard, Laprairie, Qué.		
Subsidiary BG Checo Engineering Limited and its subsidiaries	*Plants* Montréal and Ville d'Anjou, Qué.	Power distribution systems — Electric and electronic equipment for utilities, industries, transportation and shipbuilding — Electrical and mechanical installations
Head office Suite 1200, 110 Crémazie Boulevard West, Montréal, Qué.		
Cegelec Industrie Inc. *Head office* 1400 Industrial Boulevard, Laprairie, Qué.	*Plants* Laprairie and Saint-Léonard, Qué.	Electrical equipment (high and medium voltage)
La Salle Knitting Limited *Head office* Suite 440, 110 Crémazie Boulevard West, Montreal, Qué.	*Plant* Plessisville, Qué. *Sales agencies* in the main cities across Canada	Knitted goods
Artopex Ltd. *Head office* 2121 Berlier Street, Laval, Qué. *Subsidiaries* Bonnex Inc. Artena Company Limited Opus Furniture Inc.	*Sales office* Place Bonaventure, Montreal, Qué. *Plant* 2121 Berlier Street, Laval, Qué. 2290 de la Province Street, Longueuil, Qué. 55 Sicard Street, Sainte-Thérèse, Qué.	Office furniture and equipment
Sogefor Ltd. *Head office* Suite 800, 680 Sherbrooke Street West, Montréal, Qué.	*Plant* Saint-Aimé du Lac des Iles, Labelle County, Qué. *Sales office* 215 Saint James Street, Montréal, Qué.	Particle board
Montel Inc. *Head office* 225, 4th Avenue, Montmagny, Qué.	*Plant* 225, 4th Avenue, Montmagny, Qué.	Electrical equipment and steel shelving